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Russian Federation

Solid Wood Products

Export Tariff Rate Increase on Timber is Put on Hold

2008

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Report Highlights:

On November 13, 2008, Russian Prime Minister Vladimir Putin announced the 300 percent increase in export duties for timber would be delayed 9 months to 1 year. The tariff rate increase was supposed to be effective on January 1, 2009. The decision was welcomed by the Russian industry as well as European leaders and importers.

Includes PSD Changes: No
Includes Trade Matrix: No
Trade Report
Moscow [RS1]
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On November 13, 2008, after a meeting with Finnish Prime Minister Matti Vanhanen in Moscow, Prime Minister Vladimir Putin's announced that the 300 percent increase in export duties for timber would be delayed 9 months to one year. The tariff increase from 15 EUR to 50 EUR per cubic meter of timber was scheduled to go into effect on January 1, 2009. According to *Moscow Times*, The EU viewed Russia's conciliatory decision as a positive sign ahead of the EU-Russia summit which opened on November 14, 2009. According to Denis Daniilidis, spokesman for the European Commission's delegation in Moscow, this decision "will be positively assessed by European leaders at the summit." This issue was considered to be the main factor to normalize trade relations between EU and Russia, specifically with Finland and Sweden, whose lumber and pulp and paper industries would have been negatively impacted by that major increase in export tax.

It is estimated that one-fifth of all unprocessed timber used in Finnish industry is imported from Russia. Timber trade accounts for 25 percent of Finnish-Russian commodity turnover. According to Finnish trade sources, during Jan-Aug 2008 Russia exported 8.4 million cubic meters of wood products to Finland. In 2007 Russia exported a total of 18.2 million cubic meters, where Russian import share of wood in the total imports of wood products to Finland was accounted at 66 percent. According to Rosstat export of wood from Russia to Finland in Jan-June 2008 is estimated at \$550 million, an increase of 49 percent versus the same period in 2007.

The previous change in export tariffs for unprocessed raw timber had already increased the import costs of Finnish forestry processors. Further tariff increase would have resulted in the increase of custom tariffs for Finnish industry of US\$900 million by 2010. This would force Finland to source timber from other suppliers, such as the Baltic States and Latin America.

According to Timo Hammaren, the head of the EU delegation's Trade and Economic Section, conciliatory measure delaying the increase in the tariffs will "give us time to negotiate a better deal for our industry without disruption of trade in January.

The Russian forestry industry reportedly welcomed the decision for a delay in the tariff increase since Russia still lacks modern domestic processing facilities and sufficient credit support from the government. Unprocessed wood exports are estimated at 50 million cubic meters from a total domestic production of 186 million cubic meters. Some press reports indicated that the delay would likely have a negative impact for the domestic logging companies because the higher export tariff was expected to oust small logging companies from the market. According to Zakhar Smushkin, Chairman of Board of JSC "Group Ilim", "continued export of wood will result in stable cash flow in hard currency that will have a positive effect on financial situation of the Russian logging companies". According to analysts from Lesprom Network "although the increase in the export tariff, will eventually happen in the near future, the Russian government may use the delay to help facilitate WTO accession negotiations."